AMO REPORTS 82-3

PROPERTY TAXATION OF FARMS AND MANAGED FORESTS

THE ASSOCIATION OF MUNICIPALITIES OF ONTARIO
MARCH, 1982

To the Municipal Clerk:

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"AMO Reports 82-3" was submitted to the Hon. Frank Miller, Treasurer of Ontario, on April 28, 1982.

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PROPERTY TAXATION OF FARMS AND MANAGED FORESTS

1. BACKGROUND

On May 19, 1981, the Honourable Frank S. Miller presented the 1981 Ontario Budget in which substantial changes were proposed with respect to the assessment and taxation of farms and managed forests.

A Joint Committee made up of representatives from the Association of Municipalities of Ontario, the Rural Ontario Municipal Association and the Association of Counties and Regions of Ontario reviewed the Treasurer's proposal and felt that it was not a step towards overall reform of the property taxation system in Ontario. Furthermore, the Committee was very concerned that the Provincial proposal, as initially conceived, would create problems more severe than those for which remedies were sought.

In June, 1981, the Joint Committee met with Provincial representatives to review the Treasurer's proposal and voice the concerns of the Associations. In August, 1981, AMO Reports 55: Assessment and Taxation of Farms and Managed Forests was endorsed by the three Associations and the MLC and submitted to the Province. The report detailed the concerns of the Associations and set forth recommendations for the consideration of the Provincial Government.

In February, 1982, the Ministry of Treasury and Economics transmitted to AMO a revised proposal on Property Taxation of Farms and Managed Forests. The revised proposal contains many of the recommendations put forth in AMO Reports 55. However, there are some key issues which require further Provincial consideration. These issues are addressed in this paper.

2. ASSOCIATIONS' ISSUES AND CONCERNS

2.1 ASSESSMENT

In AMO Reports 55: Assessment and Taxation of Farms and Managed Forests, it was pointed out that the Associations have repeatedly stressed that all assessments should be at market value properly weighted. Reflecting this policy, it was recommended that farmland, farm residences, farm buildings and managed forests be assessed at market value properly weighted.

The Ministry of Treasury and Economics, in its February 24, 1982 proposal, has not fully incorporated the Associations' recommendation with respect to market value assessment properly weighted. The Association believes it is essential that all properties be assessed at market value properly weighted. Only the site value on which the farm residence is situated will be based on market value. However, a number of other recommendations were incorporated. AMO Reports 55 recommended that farm residences be assessed separately from farmland and farm buildings; that a reasonable amount of land be included with the farm residence; and that in calculating assessments for farm residences, other similar rural residences be utilized for comparative purposes.

The Ministry has indicated that an amendment to The Assessment Act will be introduced in 1982, to provide for farm residences to be assessed separately from the farmland. Separate tax bills and assessment notices will be produced for farm residences and farmland. Farm residences will comprise the residences themselves and the sites on which they are situated. In most cases, residential sites will be assumed to be one acre in size. Farm residences will be assessed the same way as other residences. As mentioned previously, the site value will be based on market value, not productivity value, and will equal the value of comparable unsevered non-farm residential sites.

AMO recommends:

1. That market value assessment properly weighted be applied to farmland, farm buildings and managed forests, as well as the farm residence.

The Associations, in AMO Reports 55, also recommended and stressed that Provincial legislation must ensure that the provision of separate assessments for the farm residence and the farmland not constitute a severance. This issue has not been dealt with in the February 24, 1982 Provincial proposal.

Therefore, AMO recommends:

2. That provincial legislation be amended to ensure that the provision of separate assessments for the farm residence and the farmland not constitute a severance.

Another recommendation put forth in AMO Reports 55 was that legislation be enacted to provide that land zoned for future development be assessed at market value properly weighted. This recommendation transpired from the concern that in some municipalities, vacant land is being farmed in order to ensure that the land is assessed as farmland -- thus depriving municipal taxpayers of an equitable taxation system.

The Provincial proposal recognizes this serious problem experienced by some municipalities. It suggests that The Assessment Act could be amended to allow productivity assessment on land zoned and used only for agricultural purposes, but warns that this could lead to other serious consequences. Therefore, the Provincial Government proposes that it investigate this issue in depth over the next year, with consultation with interested taxpayer and local government groups. Following the study and consultation, if change is desirable, amendments to The Assessment Act will be made for implementation in the 1985 taxation year.

However, the Association feels that this situation is serious enough and occurs in enough municipalities that it warrants immediate action.

Therefore, AMO recommends:

3. That the Province act immediately to implement changes in legislation to provide that land zoned for future development be assessed at market value properly weighted.

2.2 TAXATION

AMO Reports 55 put forth a very strong argument for a Farm Tax Rebate Program and a Managed Forest Rebate Program, as opposed to the Treasurer's initial recommendation of exemptions.

In the revised Provincial proposal, the Provincial Government has reversed its original proposal and has recommended Rebate Programs for both Farms and Managed Forests. The proposal states that legislation will be introduced by the Minister of Agriculture in the 1982 Spring Session of the Legislature to

provide for these tax rebates for 1983 and 1984. The legislation will create a Farm Tax Appeal Board to consider appeals from farmers who feel they have been unfairly denied a rebate. In addition, the legislation will provide for a stream-lining of rebate administration, as well as procedures for post audit, recapture of rebates paid to ineligible owners, and prosecution in cases of fraudulent rebate applicants.

In 1984, the Province will make a final decision whether or not to replace rebates with exemptions or to remain permanently with rebates.

AMO congratulates the Province for its move towards a rebate program and for the creation of the Farm Tax Appeal Board. However, AMO further stresses the importance of the Provincial Government remaining with a rebate program. Any future move to establish another category of tax exemption will only compound an already complex system, constitute a further erosion of the municipal tax base and result in yet another step away from property tax reform.

AMO favours the Province's proposal for 1983, in that both the Farm Tax Rebate Program and the Managed Forest Tax Rebate Program will rebate 100 percent of taxes on farmland, farm buildings, managed forests and any buildings used solely in connection with forest management. The farm residences and residences connected with the managed forests will be excluded from the rebate.

AMO Reports 55 also recommended that municipalities continue to issue tax bills to farm and managed forest owners and that such individuals continue to be directly responsible for paying their property taxes. It is felt that municipalities should not be a third party in a process over which they have no influence, responsibility, or authority.

The February 24, 1981 Provincial proposal does not clearly state the process or mechanism for issuing the rebate.

Therefore, AMO recommends:

4. That the Province clarify the process to be used in issuing rebates.

3. OTHER CONCERNS

In reviewing the revised criteria for the 1983 farm tax rebate program, AMO has concern regarding the increased gross production criterion. The Province has proposed to increase the gross production from $5,000. to $12,000., and $8,000. for Northern Ontario, in order to qualify for the rebate. In these stressful economic times, AMO suggests that there are some marginal farmers, but nevertheless bona fide farmers, who may not be able to meet the Province's increased proposed criterion. In a healthier economy, the proposed criterion would be realistic, but not with the present situation.

Therefore, AMO recommends:

5. That the Province change the 1983 gross production criterion for the farm tax rebate program to $8,000., and for Northern Ontario, to $5,000.

Further, in AMO Reports 55 a number of other areas were identified as potential problem areas if the Provincial Government implemented its original proposal.

These concerns will be alleviated for the next two years if the government implements the rebate program proposal. However, in view of the Provincial proposal that exemptions be considered for 1985 taxes, the Provincial government will have to include in its study a detailed investigation into the following areas:

- calculation of the General Support Grant, Resource Equalization Grant, and other resource based grants
- election of warden
- impact of exempt property on provisions of Provincial statutes (e.g. Drainage Act, Local Improvement Act, Tile Drainage Act)
- loss of school board representation through loss of assessment
- Ontario Municipal Board debt quotas and municipal credit ratings

- payments-in-lieu and the apportionment exercise for distribution of regional, county and school levies
- provision for grants on grants
- tax arrears and tax registration procedures

4. CONCLUSION

AMO is pleased that the new Provincial proposal with respect to Property Taxation of Farms and Managed Forests incorporates many of the recommendations put forth in AMO Reports 55. In particular, the Government's move from an exemption program to a rebate program is, in AMO's view, a positive step and should be maintained in the future.

5. SUMMARY OF RECOMMENDATIONS

1. That market value assessment properly weighted be applied to farmland, farm buildings and managed forests, as well as the farm residence.

2. That provincial legislation be amended to ensure that the provision of separate assessments for the farm residence and the farmland not constitute a severance.

3. That the Province act immediately to implement changes in legislation to provide that land zoned for future development be assessed at market value properly weighted.

4. That the Province clarify the process to be used in issuing rebates.

5. That the Province change the 1983 gross production criterion for the farm tax rebate program to $8,000., and for Northern Ontario, to $5,000.

Appendix A: Rural Section (ROMA) Comments

In reviewing the Provincial proposal on Property Taxation of Farms and Managed Forests, the Rural Section of AMO had the following concerns in addition to the report approved by the Board of Directors.

The terms "managed forests" and "forest management plans" should be adequately defined by the Province if such plans were required for a rebate. These terms are not defined in the Provincial proposal, and unless this is done, some managed forest owners may inadvertently jeopardize their eligibility for a rebate.

Furthermore, the Provincial criterion of a minimum 25 acres of forest land should be changed to a minimum acreage of 5 acres. Throughout Ontario, there are numerous legitimate managed forests of less acreage than 25 acres. Retaining these smaller managed forests is extremely important in the Rural Section's view.

The Rural Section also felt strongly that municipalities should receive, from the Province, a list of those properties eligible and receiving a tax rebate under the proposed program.

Appendix B: Comments from the County and Regional Section

In reviewing the Provincial proposal on Property Taxation of Farms and Managed Forests, the County and Regional Section voiced a number of concerns.

As a general principle, the County and Regional Section does not support property tax rebates for any individual sector of society. Due to current economic conditions, farmers are not the only group faced with financial problems. Preferential treatment to one segment of society leads other segments to request similar concessions.

Nevertheless, in responding specifically to the Provincial proposal the County and Regional Section has serious concerns regarding the proposed amendment to The Assessment Act which would allow farm residences to be assessed separately from the rest of the farm. The Provincial Government must be very careful in implementing such an amendment. The County and Regional Section suggests that a trend could be foreseen in which farm residences will be removed, thus enabling the farm owner to only pay taxes on the farm itself for which he will receive a 100% rebate. The end result will be a loss of municipal assessment.

With respect to two separate assessments for the farm residence and farm land, it was stressed that a severance could result in the situation where there is non-payment of taxes on one property. In addition, the County and Regional Section strongly supports farm property being assessed at market value as opposed to productivity value.

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